BOH QUANT MODELS: FROM THE EYES OF A PROCESS USER

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BOH process videos have everything you need to understand how to use the quantitative models so it's VERY important you watch them. But here are some bits to help you get started:

(1) **On idea generation** using scatter plot, in general, we use the outlier process. I literally just look at the scatter plot and see which stocks stand out from the rest, and jot down whatever names I find. This is similar to Point (1) in our discussion with Benedict Jamora above. Depending on your investment time horizon, you can also look at 5D vs 1M or the 2D vs 5D plots for ideas.

(1a) **On the Momentum Efficiency Frontier**, I use it primarily to compare the volatility profile of all the stocks I got from the scatter plot. I don't necessarily avoid high volatility stocks. I just take note so that I can manage my expectations on the trade, i.e. I don't expect low/mid volatility stocks to gain 10% in a day, or I won't be surprised if a high volatility stock suddenly falls 10% in a day. The key is to have a good mix of low, mid and high volatility stocks, depending on your personal risk appetite.

(1b) **When I have to choose between two or three stocks**, I use the momentum overlay in the Momentum Efficiency Frontier. I usually do this after charting the stocks that I like. The framework here is to just choose the stock with *relatively* higher momentum given a particular volatility profile. In general, if a stock is on the *upper left* part of the MEF scatter plot versus another stock, then you choose the stock on the upper left part because it means it has higher EAM with a lower volatility.

(2) **On trend following**, all you have to do is really just to follow the trend. Therefore, the first thing you have to define is: What is the trend that the stock is following? Personally, I use moving averages for trend following stocks. If you notice a stock is closely supported by the 50-SMA, then you can buy the stock with a stop below the 50-SMA. You hold the stock until you get stopped out.

Caveat, this is just my personal view on trend following. In general, at BOH, we always take profits at key resistance levels as illustrated by Sir Jet's example yesterday on zero-cost averaging and sell-half strategy. If you are a trend-follower, I believe you can combine the

two methods by taking profits at key resistance levels, and trailing stop using MAs for the rest of the position. Regarding the index at 8000, it should not be a problem for a trend follower as your stops are well-defined (i.e. stop below a predefined trend indicator).

(3) **Regarding context**, the scatter plot and MEF really helps a lot. From the scatter plot, you will know whether a certain stock is a *leader or laggard*. From the MEF, you will know the *volatility profile* of a stock. From the chart of a stock, you can see whether it is in an uptrend or a downtrend and plan your trades accordingly. Sir Jet also explained that volume and chart pattern also provide context for a stock.

Again, everything you need to know are in the BOH process videos. I learned most from watching the process videos. You can also **watch past charting shows** to learn more about how to make the most out of BOH parameters in the respective stock channels.

Good luck and may you profit from all your trades!